

PERSONAL EXPLANATION

Ms. MILLENDER-McDONALD. Mr. Speaker, during roll call vote 110, 111, and 112, which is H. Con. Res. 218, S. Con. Res. 37, and H.J. Res. 102, I was unavoidably detained because my flight has just gotten in. Had I been present, I would have voted "yes."

SPECIAL ORDERS

The SPEAKER pro tempore (Mr. GIBBONS). Under the Speaker's announced policy of January 7, 1997, and under a previous order of the House, the following Members will be recognized for 5 minutes each.

EXCHANGE OF SPECIAL ORDER TIME

Mr. PAUL. Mr. Speaker, I ask unanimous consent to claim the time of the gentleman from North Carolina (Mr. JONES).

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

THE BUBBLE

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. PAUL) is recognized for 5 minutes.

Mr. PAUL. Mr. Speaker, the big question is how history will play the current financial situation if all the great wealth accumulated in the last 10 years dissipates in a financial collapse.

According to an article in *The New Republic*, Greenspan is not only held in high esteem on Wall Street, he is seen as Godlike. One trader is quoted as saying, "When things go well, I hold Greenspan's picture between my hands and say, thank you. When things go poorly, I also take the photo in my hands and pray." And he is not alone on Wall Street in heaping praise on Greenspan. This comes as close to idolatry as one can get.

Alan Greenspan took over the Fed a few months before the stock market crash of October, 1997. In the 10 years that Greenspan has headed the Fed, \$2 trillion of new credit has been created as measured by M3. Banks threatened by bankruptcy in the early 1990s received generous assistance from the Fed policy of low interest rates and rapid credit expansion as a response to the recession of 1991. Fed fund rates were held at 3 percent for well over a year. This generous dose of Fed credit has fueled the 5-year superboom on Wall Street.

We are endlessly told no inflation exists. But inflation is strictly and always a monetary phenomenon and not something that can be measured by a government consumer or producer price index.

Even so, there currently is significant price inflation for the fancy homes throughout the country, espe-

cially in the New York and Connecticut areas influenced by the New York financial center. CEO compensation is astronomically high, while wages for the common man have been held in check. The cost of all entertainment is not cheap and rises constantly. Art prices are soaring, as is the price of tickets to athletic events. Buying stocks with a 1.8 percent dividend yield is not cheap. These prices are inflated. The cost of education, medicine, and general services are expensive and rising.

In spite of Government reports showing food prices are not rising, many constituents I talk to tell me food prices are always going up. It seems every family has difficulty compensating for the high cost of living and taxes are always inflating.

There is no doubt that many Americans know the salaries of the CEOs, athletes and entertainers are astronomically high. The wages of the average working man, though, has not kept up. Workers feel poorer and resentment grows.

Even with all of Wall Street's euphoria, Main Street still harbors deep concern for their financial condition and the future of the country. Many families continue to find it difficult to pay their bills, and personal bankruptcies are at a record high at 1,400,000 per year. Downsizing of our large corporations continue as many manufacturing jobs are sent overseas.

This current financial bubble started in mid-1982. At that time, the money supply, as measured by M3, was \$2.4 trillion. Today it is over \$5.5 trillion. That is a lot of inflation, and money supply growth is currently accelerating.

Although the money supply has been significantly increased in the past 16 years and financial prices as well as other prices have gone up, Government officials continue to try to reassure the American people that there is no inflation to worry about because price increases, as measured by the Government's CPI and PPI, are not significantly rising.

Stock prices, though, are greatly inflated. If we had an average valuation of the Dow Jones Industrials for the past 87 years, as measured by the PE ratios, the Dow would be a mere 4,100 today, not over 9,000. And the Dow would be much lower yet if we took the average price-to-dividend ratio or the price-to-book ratio.

The NASDAQ is now selling at 85 times earning. There is no doubt that most stock prices are grossly inflated and probably represent the greatest financial bubble known in history.

A lot of foreign money has been used to buy our stocks, one of the consequences of computer-age financial technology and innovations. Our negative trade balance allows foreign governments to accumulate large amounts of our treasury debt. This serves to dampen the bad effect of our monetary inflation on domestic prices, while pro-

viding reserves for foreign central banks to further expand their own credit.

Think of this: Money can be borrowed in Japan at Depression-era rates of 1 percent and then reinvested here in the United States either in more treasury debt earning 5 or 6 percent, or reinvested in our stock market, which is currently climbing at a 20 percent annualized rate. This sounds like a perfect deal for today's speculators, but there is nothing that guarantees this process will continue for much longer. Perfect situations never last forever.

Some of the euphoria that adds to the financial bubble on Wall Street and internationally is based on optimistic comments made by our government officials. Political leaders remind us time and again that our budget is balanced and the concern now is how to spend the excess. Nothing could be further from the truth, because all the money that is being used to offset the deficit comes from our trust funds.

In other words, it's comparable to a corporation stealing from its pension fund in order to show a better bottom line in its day-to-day operations. Government spending and deficits are not being brought under control. Tax rates are at historic highs, and all government taxation now consumes 50 percent of the gross national income.

It is now commonly believed that the East Asian financial crisis is having no impact on our economy. But it's too early to make that kind of an assessment. Our president remains popular, according to the polls, but what will it be like if there's any sign of economic weakness? There could then be a lot of "piling on" and finger pointing.

PROBLEMS AND VICTIMS

The basic cause of any financial bubble is the artificial creation of credit by a central bank (in this case our Federal Reserve). Artificially creating credit causes the currency to depreciate in value over time. It is important to understand the predictable economic problems that result from a depreciating currency:

1. In the early stages it is difficult to forecast exactly who will suffer and when.

2. Inflated currency and artificially low interest rates result in mal-investment that produces over capacity in one area or another.

3. Wealth generally transfers from the hands of the middle-class into the hands of the very wealthy. (The very poor receiving welfare gain a degree of protection, short of a total destruction of the currency.)

4. Prices indeed do go up, although which prices will go up is unpredictable, and the CPI and PPI can never be a dependable measurement of a monetary policy driven by loose credit.

5. The group that suffers the very most is the low-middle-income group (those willing to stay off welfare, yet unable to benefit from any transfer of wealth as stagnant wages fail to protect them from the ravages of the rising cost of living).

There are probably several reasons why this current economic boom has lasted longer than most others. The elimination of the Soviet threat has allowed a feeling of optimism not felt in many decades, and there has subsequently been tremendous optimism placed on potential economic development of many world markets in this age of relative peace.

There is also very poor understanding regarding economic interventionism, the system